



Auditor of Public Accounts
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Edelen Releases Audit of Letcher County Sheriff's Unmined Coal Tax Settlement

FRANKFORT, Ky. – State Auditor Adam Edelen today released the audit of the sheriff's settlement – 2010 unmined coal taxes for Letcher County Sheriff Danny Webb. State law requires the auditor to annually audit the accounts of each county sheriff. In compliance with this law, the auditor issues two sheriff's reports each year: one reporting on the audit of the sheriff's tax account and the other reporting on the audit of the fee account used to operate the office.

The audit found that the sheriff's financial statement fairly presents the taxes charged, credited and paid for the period August 16, 2010 through July 15, 2011, in conformity with the modified cash basis of accounting.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor also must comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

- **The sheriff should make daily deposits.** The sheriff did not always deposit tax receipts daily. During our test of receipts, we discovered that some tax receipts were accumulated and not deposited into an official bank account on a daily basis. The State Local Finance Officer, under the authority of KRS 68.210, has established minimum accounting requirements, which include depositing receipts intact on a daily basis and reconciling receipts to a daily check out sheet. We recommend the sheriff deposit receipts on a daily as required by the State Local Finance Officer.

Sheriff's response: Will comply.

- **The Sheriff should strengthen internal controls over taxes collected.** Our audit revealed the Sheriff generated incorrect monthly reports for April 2011 for unmined coal taxes. The Sheriff did not close out deposits in April resulting in monthly reports generated that did not include these taxes collected. These errors in reporting tax collections resulted in the Sheriff owing districts \$20,035 for unmined coal taxes.

A breakdown of amount owed is as follows:

- Taxes due to the districts for unmined coal taxes include \$123 due to the State, \$2,695 due to the County, \$11,951 due to the Common School, \$1,837 due to the Library district, \$1,960 due to the Health district, \$1,200 due to the Extension district and \$269 due to the Soil district.
- The Sheriff incurred a 10% penalty of \$287 for unmined coal taxes due to the State as a result of errors in reporting tax collections.

Errors in reporting tax collections could have been prevented or detected if the Sheriff's office had prepared reconciliations of taxes collected to taxes paid. We recommend the Sheriff's office implement procedures to prevent or detect errors in tax collections.

Sheriff's response: A procedure will be put in place to keep this from happening in the future.

The sheriff's office lacks adequate segregation of duties. During our review of internal control, we found the Sheriff's office has a lack of adequate segregation of duties. A significant deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. The bookkeeper collects, deposits, and records all receipts and prepares and records all checks. The bookkeeper also prepares all bank reconciliations. Good internal controls dictate that the same employee should not be handling, recording, and reconciling cash receipts. Furthermore, authorized check signers should be independent of receiving cash and preparing checks. A material weakness occurs when a significant deficiency, or combination of significant deficiencies, results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal controls. The sheriff's office failed to prepare reconciliations of taxes collected to taxes paid. We noted errors in tax collections which could have been prevented or detected if the sheriff's office had prepared reconciliations of taxes collected to taxes paid.

If the sheriff cannot segregate these duties, compensating controls such as the Sheriff recounting daily deposits, agreeing deposits to daily tax reports, and agreeing deposits to the receipts ledger should be implemented. The sheriff should also review reconciliations of taxes collected to taxes paid. The sheriff should document these reviews by initialing and dating the bank deposit, daily checkout sheet, receipts ledger, and reconciliations. The sheriff could also periodically compare bank reconciliations to the balance in the checkbook and document this by initialing and dating the bank reconciliation and the balance in the checkbook. We recommend the sheriff review office procedures to address this material weakness.

Sheriff's response: Some controls have been in place; however, we will implement other measures in the future.

The sheriff's responsibilities include collecting property taxes, providing law enforcement and performing services for the county fiscal court and courts of justice. The sheriff's office is funded through statutory commissions and fees collected in conjunction with these duties.

This report, in its entirety, can be accessed at the following Internet site: [here](#).

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